

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ADJUSTMENT OF THE RATES OF)	
AUXIER ROAD GAS COMPANY, INC., FOR)	CASE NO. 10288
AN INCREASE IN GAS RATES)	

O R D E R

On February 24, 1989, the Commission issued its Order in this proceeding wherein it granted Auxier Road Gas Company, Inc. ("Auxier Road") additional revenues of \$18,950 and authorized rates that would produce annual operating revenues of \$380,015. On March 29, 1989, the Commission issued an Opinion Order in support of its February 24, 1989 Order. On April 18, 1989, Auxier Road filed its Petition for Rehearing and Reconsideration of the Commission Orders dated February 24, 1989 and March 29, 1989. Auxier Road requested rehearing on all of the adjustments contained in the Opinion Order of February 24, 1989. In addition, Auxier Road requested the Commission incorporate the findings of the February 24, 1989 Order into the Opinion Order of March 29, 1989.

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, hereby finds the following:

Incorporation of March 29, 1989 Order

The Commission has considered Auxier Road's request to incorporate the March 29, 1989 Order into the Order of February 24, 1989, and has granted that request by separate Order issued this same date.

Purchased Gas Adjustment ("PGA")

In its petition, Auxier Road argued that the Commission has relied in part upon data, including PGA filings to be effective March 1, 1989, as the basis for its opinion in the previously entered Order of February 24, 1989, and that it is inappropriate to justify a previously entered Order by subsequent filings of the applicant. The PGA filing referred to in the Commission's Order of March 29, 1989 was filed on February 6, 1989 to be effective March 1, 1989. Thus, Auxier Road's contention that the PGA was filed subsequent to the February 24, 1989 Order is incorrect, and rehearing on this issue should be denied.

Wages and Salaries

In its petition, Auxier Road reargued its position that no adjustment to test-year wages, salaries and benefits should be made. Auxier Road incurred 1987 wages, salaries and benefits expenses of \$87,394. The record reflects that this level was 134 percent greater than that incurred on the average by comparable small gas companies that year.

The Commission Order reduced wages, salaries and benefits expenses by \$19,749. This adjustment was determined by applying the same treatment the Commission has accorded this expense in the past two Auxier Road rate proceedings. The amount of wages and

salaries allowed in the Order provides a considerably greater allowance than the levels being incurred by most other small companies. Due to the above reason and given the fact that most of these wages, salaries and benefits relate to compensation accruing to the company's owner and his family members, the Commission finds that rehearing on this issue should be denied. Auxier Road has offered no new justification for the level of wages and salaries incurred during the test year.

Transportation Expense

In its petition, Auxier Road reargued its position that no adjustment should be made to test-year transportation expense. Auxier Road incurred test-year transportation expenses near equal to the combined total of the six small gas companies closest to it in size.

The Commission finds that Auxier Road's argument is not persuasive because reductions are necessary to adjust for excessive test-year expenditures. The Commission's approach in arriving at its \$5,093 reduction to the test-year expense level was to reduce the allowance for the management vehicle. Currently, Auxier Road leases a vehicle from its owner for \$587 per month; this is the equivalent to the monthly payment on a \$27,500 luxury vehicle under a normal loan amortization schedule. The Commission finds that ratepayers should not be required to bear the cost of a luxury vehicle. The Commission determined that its allowance for recovery through rates of a \$12,500 vehicle is adequate and that a functional vehicle may be obtained at this price. Upon making this adjustment, a provision of \$14,283 for

transportation expense is included in rates, which still exceeds the levels being incurred by other small gas companies.

Based upon the above discussion, rehearing on this issue should be denied.

Visa, Cash, American Express Expenditures

1. Visa Expenditures - In its petition for rehearing, Auxier Road reargued its position that no adjustment should be made to these test-year expenses. However, as noted above, the Commission provided transportation expenses of \$14,283 in the transportation expense account. Based upon the determination that this is a reasonable allowance for transportation expenses, the Commission excluded \$1,175 in gasoline/oil and other transportation-related items charged to a Visa card and booked to miscellaneous expenses. Auxier Road maintained no mileage records of transportation expenses which should be charged to the company. Auxier Road offered no new evidence in its petition which would indicate that the amount of \$14,283 is not a sufficient expense allowance for transportation; therefore, rehearing on this issue should be denied.

2. Cash Expenditures - Auxier Road's request for rehearing on cash expenditures represents a reversal of its previous position on this issue. It is noted of record that at the October 1988 informal conference Auxier Road stated that it agreed with this Staff recommendation.

Auxier Road was unable to document the \$3,016 cash expenditure; moreover, the record indicates that according to daily

summary sheets, \$1,438 was for "drinks" for which Auxier Road failed to justify a benefit to the utility. Given the lack of documentation and the doubt as to whether these expenditures were related to providing gas service, the Commission is of the opinion that a provision for such expenditures should not be provided for in rates. Therefore, rehearing on this issue should be denied.

3. American Express Expenditures - In its petition, Auxier Road objected to the Commission's adjustment to exclude \$583 in meals/lodging expenses related to various legal proceedings. As discussed in its Opinion Order at pages 4-5, the Commission has included rate case/legal expenses of \$8,796, including \$500 for company expenses, amortized over 3 years. Auxier Road has offered no new evidence to support rate case/legal expenses above the level contained in the Opinion Order. Therefore, rehearing on this issue should be denied.

Telephone Expense

In the Opinion Order, the Commission eliminated the cost of one of the two telephone lines maintained by Auxier Road in its small office on the basis that one line should be sufficient for an operation the size of Auxier Road. The Commission has made a similar adjustment in Auxier Road's past several cases, but Auxier Road has chosen to continue to incur the cost even though it has not been included for rate-making purposes. The Commission also eliminated one-half of the \$1,435 in long distance calls incurred during the test year on the basis that the level is excessive for a small gas company whose entire customer base is located within the same telephone exchange as its office. Test-year toll charges

consisted of hundreds of calls to locations all over the country, and were not supported by records which would identify the gas-related business nature of the calls. The Commission believes Auxier Road has failed to justify its test-year toll charges and no new evidence has been offered in the petition for rehearing to support the company's position. Therefore, rehearing on this issue should be denied.

Interest Income/Equity

In its petition, Auxier Road reargued its position that no adjustment to reduce its equity should be made. Auxier Road's balance sheet reflected a test-year end equity balance of \$59,009. However, this balance existed only because of overcharges which occurred prior to the test-year end and which were refunded subsequent to the end of the test year. Had these overcharges not occurred, the equity balance would not have existed at test-year end. Therefore, the Commission properly excluded this equity in determining Auxier Road's capitalization for rate-making purposes.

Auxier Road argued that interest income should be eliminated to correspond with the Commission's equity adjustment. However, there is no direct relationship between equity and interest income. Equity does not represent a cash balance drawing interest. Moreover, interest income was not considered in the calculation of Auxier Road's operating revenue requirement, as this is a below-the-line item.

Based on the above discussion, rehearing on this issue should be denied.

Interest Expense

In its petition, Auxier Road reargued its position that an allowance for interest on customer deposits should be allowed in the calculation of its operating income statement. In its calculation of Auxier Road's operating revenue requirement, the Commission is of the opinion that it is proper to exclude a provision for interest on customer deposits on the basis that this is a below-the-line item. Furthermore, any interest paid by Auxier Road on customer deposits should be offset by interest earned on these deposits. Rehearing on this issue should be denied.

Other Taxes

Auxier Road argued that if additional amounts were granted for wages and salaries on rehearing, corresponding increases should be made to reflect increases in payroll taxes. Inasmuch as no such additional amounts have been allowed upon reconsideration, rehearing on this issue should be denied.

Working Capital

Auxier Road argued that if any additional operating and maintenance expenses (excluding purchased gas) were allowed upon reconsideration, appropriate adjustments should be made to the working capital component of rate base pursuant to the one-eighth formula. Inasmuch as no such additional expenses have been granted upon reconsideration, rehearing on this issue should be denied.

Income Taxes

Late in this proceeding, Auxier Road proposed an income tax expense allowance. However, the Commission determined that for

Auxier Road such an allowance is not justified. Auxier Road's rate base is 100 percent supported by debt. Therefore, if interest is synchronized, there is no taxable income for rate-making purposes. The Commission also notes that Auxier Road has in excess of \$100,000 in loss carryforwards, so an actual tax liability in the near future is highly improbable.

Based on the above discussion, rehearing on this issue should be denied.

Operating Income Requirement

In its petition, Auxier Road reargued its position in favor of an alternative method for computing its revenue requirement. Auxier Road proposes the computation be based upon the 1.2X DSC method. This method is commonly used for water districts because of bond ordinance requirements. Auxier Road's DLG loan has no similar requirement.

The method used by the Commission is identical to the method used in Auxier Road's past several cases and provides for annual positive cash flow of approximately \$34,723, which is quite sufficient for a company the size of Auxier Road. Therefore, the Commission affirms its finding that Auxier Road's operating revenue requirement should be calculated based upon a 7.5 percent return on net investment rate base.

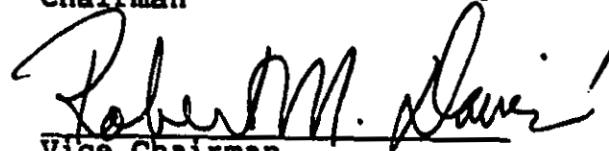
Based upon the above discussion, rehearing on this issue should be denied.

IT IS THEREFORE ORDERED that Auxier Road's petition for rehearing be and it hereby is denied.

Done at Frankfort, Kentucky, this 8th day of May, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director